

HOUSE BUDGET COMMITTEE

Democratic Caucus

The Honorable John M. Spratt Jr. ■ Ranking Democratic Member

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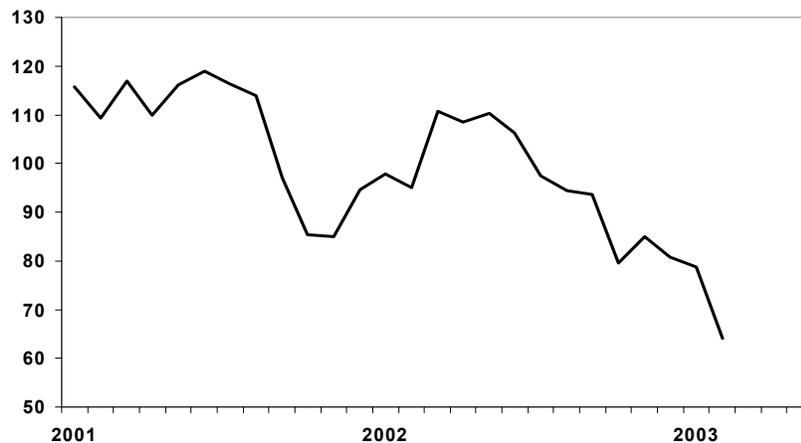
February 26, 2003

With Deficit Already Worse Than Administration Predictions, Consumers Give Bush Administration Thumbs-Down

Dear Democratic Colleague,

Yesterday, the Conference Board reported that its Consumer Confidence Index dropped for eight of the last nine months and now stands at its lowest level in over nine years. This, along with the almost 40 percent stock market decline since the President took office, is signaling that the Administration is failing to deliver the improved economy it has promised.

Consumer Confidence Plunges



The Administration has put the budget and the economy on an unsustainable course. Its own projections show chronic deficits for as far as the eye can see, even though these projections rely on rosy economy assumptions. Today's consumer confidence report calls into question these rosy assumptions that the Administration issued just three weeks ago.

In light of this, it is hardly surprising that the President's budget projections also are failing to live up to his assertions. The Treasury reports that the unified budget showed a \$97.6 billion *deficit* for the first four months of the current fiscal year. This stands in sharp contrast

with the *surplus* posted in the first four months of the last fiscal year. The slumping budget figures also mark a worrisome departure from the Administration's budget projections issued at the beginning of this month.

When the President submitted his budget 22 days ago, he predicted that revenues during the current fiscal year would grow by 0.7 percent without any new tax cuts. (With the Administration's proposed tax cuts, OMB estimated that revenues would fall slightly, rather than rise.) Now, instead of this small predicted revenue increase, the Treasury reports that its total receipts fell sharply in the first four months of FY 2003, declining by 8.1 percent.

It is difficult to predict just how much worse than the Administration's recent prediction this year's deficit will be, because monthly Treasury statements show considerable volatility. However, it is nonetheless painfully clear that this year's unified deficit will be more detrimental than the record \$304 billion shortfall the President shows in his budget.

Five days ago, the President went out of his way to proclaim that the respected Blue Chip survey of over 50 economic forecasters had implicitly endorsed his proposed \$1.5 trillion in new tax breaks. He noted that the Blue Chip consensus foresees 3.3 percent growth over the next four quarters, assuming taxes are cut this year.

There are two problems with the President's argument. First of all, the 3.3 percent growth that the Blue Chip consensus foresaw in the most recent survey is exactly the same as the pace Blue Chip predicted six months ago — long before the President unveiled his additional \$1.5 trillion in new tax breaks. Clearly, the private forecasters do not believe that the President's new round of tax cuts will have any appreciable effect on near-term economic growth.

Worse still, the 3.3 percent foreseen by the Blue Chip is less than the 3.4 percent growth that the President's budget already assumes for the next four quarters. Thus, private forecasters are signaling that the Administration's economic and budget assumptions for this year are too rosy — which the deterioration in economic indicators and budget outcomes confirm. Similarly, the Blue Chip forecast for the four quarters of next year also falls short of the President's sanguine economic prediction. Blue Chip expects 3.5 percent growth — also unchanged from the prediction six months ago — while the Administration's budget projections assume 3.6 percent growth.

The re-emergence of chronic budget deficits constitutes a grave threat to our economic health. This threat should not be minimized or wished away.

Sincerely,

John M. Spratt, Jr.
Ranking Member